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RUEHNE/AMEMBASSY NEW DELHI 0468  
RUEHAST/USOFFICE ALMATY

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SIPDIS

DEPT FOR SCA/CEN (O'MARA)  
DEPT PASS TO OPIC - BALLINGER  
DEPT PASS TO TDA FOR STEIN, EXIM FOR GLAZER  
DEPT PASS TO AID - EE-PHILLIPS/RUSHING  
TREASURY FOR OASIA/VELTRI  
USDOC FOR 4231/ITA/MAC/MLONDON, 4201/BISNIS  
USDOC FOR 6110/ITA/TD/BI/RHALPERN  
ANKARA FOR CFC

SIPDIS

E.O. 12958: N/A

TAGS: [ECON](#) [EIND](#) [ENRG](#) [EPET](#) [EFIN](#) [KZ](#)

SUBJECT: KAZAKHSTAN ECONOMIC AND ENERGY UPDATE, JULY 8-21, 2007

ASTANA 00001994 001.2 OF 003

11. Summary: This information is drawn primarily from the Kazakhstani local press, and has not been checked for accuracy. The opinions and policies expressed in this report are those of the authors, not the U.S. Government.

- Amendments to Budget 2007 Signed
- Amendments to Budget Code Approved
- Government Seeks to Curb Inflation
- The Railroad Gathers Steam...
- ...And KamAZ Trucks Along
- KazAtomProm to Purchase 10% of Westinghouse
- KazAtomProm to Set up Three New Facilities
- KZ/RU Consortium Wins Tender for 51% of Turkish Petrochem Co.
- Kazakhstan Welcomes Oil Cooperation with Croatia
- Bogatyr Access Komir Names New Director General

Amendments to Budget 2007 Signed

12. Amendments to the national budget 2007 were approved by President Nazarbayev. The document raised the projected 2007 budget deficit from 1.2% to 2.2% of the GDP. The amendments also increased the annual inflation forecast from the range of 5-7% to 7-9% and adjusted the projected annual GDP growth from 8.6% to 9.7%. The projection for 2007 GDP now stands at 12,464 billion KZT (approx. \$102.4 billion). (Interfax-Kazakhstan, July 5)

Amendments to Budget Code Approved

13. President Nazarbayev has signed amendments to the Budget Code. According to the president's press service, this law aims to introduce a more comprehensive definition of "budgetary oil revenues" and ensure their timely transfer to the National (Oil) Fund (NF). The term "oil revenues" currently covers the government's revenues from exploration, production and sales of oil and gas condensate. The new law creates additional income sources for the NF by classifying as "oil revenues" such government revenues as penalties charged for delays in fulfillment of contractual liabilities or non-compliance with rules governing oil production

technology. (Interfax-Kazakhstan, July 2)

#### Government Seeks to Curb Inflation

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¶4. Consumer Price Index (CPI) rose by 0.8% during the month of June. This is the highest monthly inflation rate for any June since 1997. Growth of food prices was responsible for 54.5% of inflation, services - 26.6% and non-food products - 18%. According to Anvar Saidenov, Chairman of the National Bank, growth of money supply and a doubling of credit volume were the main causes of accelerating inflation. In response, the Government asked the National Bank to tighten controls over money supply and called on various state agencies to continue its policy of stock exchange development and encouragement of industrial growth through higher labor productivity. As of June 2007, the year-on-year rate of inflation was 8.1%. (Izvestiya-Kazakhstan newspaper, July 17, Press-Release of the National Bank, July 3)

#### The Railroad Gathers Steam...

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¶5. The national railway company Kazakhstan Temir Zholy (KTZ) has declared a \$177.6 million profit in 2006 after a \$129.5 million loss in 2005. The company stated that its assets soared from \$5.1 billion in 2005 to \$6.35 billion in 2006, while equity capital increased from \$3.9 billion to \$4.35 billion. KTZ is wholly owned by the Samruk State Holding Company. (Interfax-Kazakhstan, July 11)

#### ...And KamAZ Trucks Along

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¶6. KamaAZ-Engineering, a Russian-Kazakhstani joint venture auto assembly plant (located in Akhmolinskaya Oblast in northern Kazakhstan), reported a sharp year-on-year increase in output. In January-June 2007, the company assembled \$52.7 million worth of

ASTANA 00001994 002.2 OF 003

trucks, compared to \$21.1 million the year before.

#### KazAtomProm to Purchase 10% of Westinghouse

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¶7. Kazakhstani national atomic company KazAtomProm (KAP) is in talks to purchase 10% of the stock of U.S.-based nuclear reactor manufacturer Westinghouse Electric Co. from Toshiba Corp., which holds a 77% stake in Westinghouse. According to KAP President Dzhakishev, the \$486-million deal is to be finalized by autumn 2007 and will be financed by the company's own assets. The deal is to be coordinated with the U.S. authorities, said KAP President. Observers speculate that the deal may stem from Toshiba's interest in obtaining access to Kazakhstan's uranium. In turn, Kazakhstan may gain access to Japan's uranium enrichment technologies and a distribution channel for its uranium production. (Interfax - Kazakhstan, July 18)

¶8. Four U.S.-based non-governmental organizations (NGOs) have called on the Bush administration to reject Kazakhstan's bid to acquire a share in Westinghouse. According to the NGOs, the deal would undermine non-proliferation efforts and hand over sensitive nuclear technologies to the Kazakhstani regime, which they described as cruel, repressive and undemocratic. (RIA Novosti - Russia, July 19)

#### KazAtomProm to Set up Three New Facilities

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¶9. Ulba Mill (a division of KazAtomProm) has launched three projects, with a total value of \$848 million, under the aegis of the Kazakhstani Government's (GOK's) "30 corporate leaders" program. The projects aim to create the complete cycle of nuclear fuel production in Kazakhstan. The project on production of uranium hexafluoride and fuel assemblies will ensure fuel supply for third-generation reactors. Ulba is also implementing a beryllium project to provide feedstock for nuclear fusion reactors and space engineering. The third project is production of tantalum, which

would be employed in manufacturing of super-light condensers with the use of nanotechnologies. (Interfax - Kazakhstan, July 3)

KZ/RU Consortium Wins Tender for 51% of Turkish Petrochem Co.

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¶10. On July 8, "TransCentralAsia Petrochemical Holding" consortium won the tender for 51% of Turkish petrochemical company "Petkim Petrokimya Holding" with a \$2.05 billion bid. The shareholders of the consortium are the Russian bank "Troika Dialog," the Kazakhstani investment group "Eurasia" (controlled by TuranAlemBank Head Mukhtar Ablyazov) and the "Caspi Neft" company, a Kazakhstani subsidiary of the U.S.-based "Transmeridian Exploration Incorporated." However, Turkey's Privatization Ministry has requested a national security review of the consortium shareholders due to "negative comments among the Turkish community." Furthermore, the trade union of Turkish petrochem specialists declared its opposition to the deal. (webside nomad.su/Kazakhstan - July 18)

Kazakhstan Welcomes Oil Cooperation with Croatia

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¶11. Kazakhstan is interested in exporting its hydrocarbon resources to Croatia and, via Croatia, to western Europe, Kazakhstani President Nursultan Nazarbayev said at a joint press conference with Croatian President Stjepan Mesic on July 3. According to President Nazarbayev, Kazakhstani companies are interested in developing Croatian oil and gas pipelines, and they also seek to become shareholders of European-based (or -linked) oil refineries and seaports.

¶12. National oil and gas company KazMunayGas plans to take part in the privatization of Croatian oil company INA, 44% of which is owned by the Croatian government, Kazakhstani Energy Minister Izmukhambetov said after his meeting with INA Executive Director Petrovic. "The sides agreed that after the Croatian side provides concrete proposals for the privatization of INA, a Kazakhstani delegation will travel to Zagreb for further talks," the statement

ASTANA 00001994 003.2 OF 003

said. INA owns about 450 filling stations and two oil refineries in Croatia. (Interfax - Kazakhstan, July 9)

Bogatyr Access Komir Names New Director General

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¶13. Sergey Opanasenko has been named a new director general of Bogatyr Access Komir (BAK), a Pavlodar Oblast affiliate of the U.S.-based Access Industries Inc. Opanasenko, formerly employed by Russia's electricity transmission company RAO UES, has been with Access Industries since 2006. Opanasenko replaces Dennis Price, who became Director General of "Sayran ON", a subsidiary of "Kuat," a leading Kazakhstani construction company. (Interfax - Kazakhstan, July 11)

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